

## Message Text

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PAGE 01 SINGAP 00319 01 OF 02 230514Z  
ACTION EA-12

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R 210300Z JAN 78  
FM AMEMBASSY SINGAPORE  
TO SECSTATE WASHDC 9453  
INFO AMEMBASSY BANGKOK  
AMEMBASSY JAKARTA  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY MANILA

C O N F I D E N T I A L SECTION 1 OF 2 SINGAPORE 0319

STADIS //

E.O. 11652: GDS  
TAGS: PEPR, SN, US  
SUBJ: EAST ASIAN ECONOMIC POLICY REVIEW - SINGAPORE

REF: A) 77 STATE 299030, B) SINGAPORE 0006, C) 77 SINGAPORE 5525  
D) 77 SINGAPORE A-119

1. INTERESTS AND OBJECTIVES. THE EMBASSY'S LATEST STATE-  
MENT ON U.S. ECONOMIC GOALS AND OBJECTIVES IN SINGAPORE  
IS CONTAINED IN PARAS 2. III AND 3 OF REF B. THE U.S.  
INTERESTS TO BE SERVED THROUGH THESE GOALS AND OBJECTIVES  
ARE DISCUSSED BRIEFLY BELOW IN THE ORDER IN WHICH FUNCTIONAL  
AREAS ARE LISTED IN PARA 3 OF REF A.

2. A. BILATERAL AID. WE HAVE NO BILATERAL ASSISTANCE PRO-  
GRAM IN SINGAPORE. THERE ARE TWO SMALL REIMBURSABLE AID  
PROJECTS.

B. MULTILATERAL AID. SINGAPORE HAS MADE EFFICIENT USE OF  
SMALL AMOUNTS OF ASSISTANCE FOR UNDP (SEE ALSO REF D)  
AND THE COLOMBO PLAN, AND IS A BENEFICIARY OF U.S. AND  
OTHER GSP PROGRAMS. AMONG THE MOST IMPORTANT RECENT  
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DEVELOPMENTS IN OUR ECONOMIC RELATIONS WITH SINGAPORE  
HAVE BEEN ITS EFFECTIVE ELIMINATION FROM THE COUNTRIES  
ELIGIBLE FOR OPIC COVERAGE AND THE IMF'S DETERMINATION,  
BELIEVED BY THE GOS TO BE AT U.S. INSTANCE, THAT SINGA-  
PORE NOT BENEFIT FROM IMF GOLD SALES. THESE ACTIONS  
HAVE GREATLY CONCERNED THE GOS, WHICH FEARS THAT THEY MAY  
LEAD TO SIMILAR ACTIONS BY OTHER IFIS AND DEVELOPED

COUNTRIES AND TO THE LOSS OF FURTHER CONCESSIONAL BENEFITS. OUR INTEREST IN A COOPERATIVE RELATIONSHIP WITH THE GOS WOULD NOT BE WELL SERVED IF WE WERE SEEN TO BE FURTHER FORCING THE PACE OF SINGAPORE'S RELUCTANT GRADUATION FROM LDC STATUS.

INVESTMENT POLICY, OPIC. THE GOS IS INTENSELY INTERESTED IN ATTRACTING MORE U.S. AND OTHER FOREIGN INVESTMENT, WHICH IT SEES AS ESSENTIAL TO SINGAPORE'S CONTINUED PROSPERITY AND THUS ITS POLITICAL HEALTH. THE PRIME MINISTER AND OTHER SENIOR OFFICIALS CONSTANTLY PREACH THE ADVANTAGES OF FOREIGN INVESTMENT IN CREATING JOBS, INCREASING EXPORTS AND TRANSFERRING TECHNOLOGY. WE THINK THEY ARE CORRECT IN BELIEVING THAT SINGAPORE'S ECONOMIC VULNERABILITY REQUIRES IT TO STAY WELL AHEAD OF ITS NEIGHBORS IN THE QUALITY AND SOPHISTICATION OF ITS FINANCIAL AND TRADING SERVICES AND ITS INDUSTRIAL PRODUCTION. SINCE THE GOS BELIEVES THAT THIS QUALITY AND SOPHISTICATION RESULT IN PART FROM THE TECHNOLOGY BROUGHT IN WITH FOREIGN INVESTMENT, IT IS EXTREMELY SENSITIVE TO ANYTHING THAT MIGHT DETER U.S. INVESTMENT HERE. WITH OPIC COVERAGE NOW VIRTUALLY UNAVAILABLE AND THE PROSPECTS FOR CONTINUED TAX DEFERRAL UNCERTAIN, THE GOS IS KEENLY INTERESTED IN EXPLORING ANY OTHER WAYS IN WHICH U.S. INVESTMENT MIGHT BE ENCOURAGED, INCLUDING THE PROPOSED BILATERAL INVESTMENT TREATY. WE SEE OUR INTERESTS LYING IN WORKING WITH

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THE GOS TO ENCOURAGE FURTHER U.S. INVESTMENT HERE, SPECIFICALLY THROUGH EARLY NEGOTIATION OF AN INVESTMENT TREATY.

TRADE POLICY. TOTALLY DEPENDENT ON TRADE FOR ITS VERY EXISTENCE, SINGAPORE'S TRADE POLICY INTERESTS ARE REMARKABLY CONSISTENT WITH OUR OWN. IT FAVORS REDUCTION OF TRADE BARRIERS (AND HAS FEW OF ITS OWN), OPPOSES PROTECTIONISM, AND ONLY SUPPORTS THE COMMON FUND, STABEX AND OTHER G-77 DEMANDS LUKE-WARMLY FOR WHAT IT CONSIDERS OVER-RIDING POLITICAL REASONS (I.E., ASEAN SOLIDARITY AND PROTECTION OF ITS LDC CREDENTIALS). OUR INTERESTS LIE IN COOPERATING WITH AND ENCOURAGING THE GOS AS A MODERATING INFLUENCE WITHIN ASEAN AND THE G-77. THESE INTERESTS WILL BE PROMOTED BY MAKING SUCH COOPERATION WORTHWHILE THROUGH SUCH ACTIONS AS GENEROUS CONSIDERATION OF SINGAPORE'S GSP REQUESTS.

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C O N F I D E N T I A L SECTION 2 OF 2 SINGAPORE 0319

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COMMERCIAL POLICY, EXIM BANK. U.S. INTERESTS AND OBJECTIVES ARE CLEAR AND SIMPLE - EXPANSION OF U.S. EXPORTS TO AND THROUGH SINGAPORE; IMPLEMENTATION IS MORE DIFFICULT. THE SINGAPORE MARKET IS ITSELF SMALL, BUT SINGAPORE IS A DISTRIBUTION CENTER FOR NEIGHBORING COUNTRIES. WE BELIEVE THAT THE CURRENT CCP IS WELL DESIGNED TO EXPLOIT THIS FUNCTION, AND THAT THE NEW REGIONAL ORIENTATION OF THE INTERNATIONAL MARKETING CENTER HAS ALREADY DEMONSTRATED ITS EFFECTIVENESS IN REACHING NEIGHBORING MARKETS (E.G., THE RECENT DYNAMIKA EXHIBIT IN JAKARTA). FINANCING SINGAPORE'S IMPORTS FROM THE U.S. HAS NOT BEEN A PROBLEM, GIVEN ITS SOPHISTICATED BANKING SYSTEM. EXIM BANK FACILITIES HAVE NOT PLAYED A SIGNIFICANT PART IN U.S. EXPORT FINANCING FOR SINGAPORE, BUT OPPORTUNITIES MAY EXIST FOR A MORE DYNAMIC EXIM POLICY.

COMMODITY POLICY. AS WE HAVE OFTEN REPORTED, THE GOS HAS LITTLE INTEREST IN COMMODITY AGREEMENTS BECAUSE SINGAPORE MAKES ITS PROFITS FROM TRADE AND INDUSTRY RATHER THAN COMMODITY PRODUCTION, AND IT CONSIDERS THE LEVELS  
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AND STABILITY OF COMMODITY PRICES RELATIVELY UNIMPORTANT COMPARED TO THE DISADVANTAGES OF INTERVENTIONS IN THE MARKET BY BUFFER STOCK OPERATIONS. THE GOS WILL, HOWEVER, CONTINUE TO SUPPORT ASEAN AND G-77 DEMANDS FOR THE COMMON

FUND FOR REASONS NOTED ABOVE. OUR INTEREST IS IN ENCOURAGING THE GOS TO EXERCISE A MODERATING INFLUENCE WITHIN LDC COUNCILS TO THE EXTENT POSSIBLE GIVEN ITS PERCEIVED POLITICAL LIMITATIONS.

CIVIL AVIATION. WE HAVE RECENTLY REACHED AGREEMENT ON A BILATERAL AIR SERVICES AGREEMENT, ALTHOUGH TWO MAJOR LOOSE ENDS (CAB APPROVAL OF SIA CARGO FLIGHTS TO THE U.S. AND FULL GOS APPROVAL OF FLYING TIGER FLIGHTS TO SINGAPORE) REMAIN TO BE TIED UP.

SCIENCE AND TECHNOLOGY. SINGAPORE'S KEY INTEREST IS IN ATTRACTING HIGHER TECHNOLOGY INDUSTRY. THE SHEER PHYSICAL LIMITATIONS ON LAND AVAILABLE FOR INDUSTRY IN THIS TINY COUNTRY DICTATE THAT FUTURE INCREASES IN THE VALUE OF ITS OUTPUT MUST TO A LARGE EXTENT COME FROM UPGRADING RATHER THAN EXPANSION OF ITS INDUSTRY. FOREIGN INVESTMENT IS CORRECTLY SEEN AS THE ONLY EFFECTIVE INSTRUMENT TO ACCOMPLISH THIS. TO THE EXTENT THAT OUR INTERESTS LIE IN FURTHERING SINGAPORE'S ECONOMIC WELL-BEING, THEY COINCIDE WITH SINGAPORE'S NEED TO ATTRACT HIGHER TECHNOLOGY INDUSTRY. WE RECOGNIZE THAT DOING SO IS LARGELY UP TO THE GOS, WHICH HAS THUS FAR FOUND CONSIDERABLE SUCCESS IN ITS EFFORTS.

3. 1977 POLITICAL AND ECONOMIC DEVELOPMENTS BEARING ON ECONOMIC POLICY. WITH THE IMPORTANT EXCEPTION OF THE PRIME MINISTER'S HIGHLY SUCCESSFUL VISIT TO THE U.S. AND THE REASSURANCE HE FOUND ON U.S. POLITICAL INTERESTS  
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AND INTENTIONS TOWARD SE ASIA, 1977 WAS A SOMEWHAT DISAPPOINTING YEAR FOR THE GOS VIS-A-VIS THE U.S. AS EARLIER MENTIONED, ELIMINATION FROM OPIC ELIGIBILITY AND UNCERTAINTY ON TAX DEFERRAL ARE CONSIDERED A DAMPER ON U.S. INVESTMENT HERE. SINGAPOREANS ARE CONCERNED OVER THE INCREASE IN PROTECTIONIST PRESSURES FROM U.S. BUSINESS AND LABOR AND OVER THE POSSIBILITY THAT THE U.S. AND OTHER DEVELOPED COUNTRIES MAY BE MOVING TOWARD MORE PROTECTIONIST TRADE POLICIES. BENEFITS FOR ASEAN FROM THE OPENING OF THE US-ASEAN CONSULTATIONS HAVE NOT YET MATERIALIZED (GOS EXPECTATIONS FOR SUCH BENEFITS WERE NOT UNREALISTICALLY HIGH). EVEN THE NEW BILATERAL CIVIL AVIATION AGREEMENT HAS NOT BEEN AN UNQUALIFIED PLUS; DELAYS AND PROBLEMS IN THE IMPLEMENTATION OF THE TERMS OF THE AGREEMENT STILL REMAIN.

4. BALANCED AGAINST THESE DEVELOPMENTS, HOWEVER, IS SINGAPORE'S EXCELLENT ECONOMIC PERFORMANCE: REAL GNP UP BY AN ESTIMATED 7.8 PERCENT WITH NOMINAL PER CAPITA

GNP UP TO ABOUT U.S. \$2870 (\$2583 IN 1976), AND  
INFLATION HELD TO ONLY 2.4 PERCENT. IN FACT, IF THE  
GOS FOUND THE U.S. ECONOMIC RELATIONSHIP DISAPPOINTING  
IN 1977, IT WAS AGAINST A CHEERFUL BACKGROUND AND ITS  
CONCERNS DEALT MORE WITH POSSIBLE FUTURE PROBLEMS THAN  
WITH ACTUAL DAMAGE DONE.

5. U.S. ECONOMIC RELATIONS WITH ASEAN. OUR VIEWS ON  
US-ASEAN RELATIONS WERE SPELLED OUT IN SOME DETAIL  
IN REF C. BRIEFLY, THE GOS VALUES THE US-ASEAN  
RELATIONSHIP FOR THE INCREASED U.S. ATTENTION IT  
GENERATES ON THE ASEAN REGION. IT DOES NOT EXPECT  
ANY REALLY IMPORTANT ECONOMIC BENEFITS TO RESULT  
FROM THE DIALOG.  
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